

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF NAKURU FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of set out on pages 6 to 42, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statements of appropriation: recurrent, development and combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Executive of Nakuru as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion of my report, I confirm that nothing has come to my attention that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Revenue

1.1. Local Sources of Revenue

Revenue from the local sources for the year ended 30 June 2017 was Kshs.1,960,883,759 compared to Kshs.2,295,462,842 in 2015/2016, a decrease by Kshs.334,579,083 or 15%. Further, the budget for local sources of revenue was Kshs.3,202,264,658, hence under collection of Kshs.1,241,380,899. The accuracy of the schedule presented to support local sources of revenue could not be authenticated since it was not supported by sub schedules or reports generated from ZIZI and LAIFORMS systems. In addition, of the total reported local revenue, only Kshs.1,847,525,420.77 was banked intact, hence under banking of Kshs.113,358,337.95 contrary to Section 157 (2) of the Public Finance Management Act, 2012.

1.2. Single Business Permits

Revenue from single business permit was Kshs.313,672,443 as at 30 June 2017, compared to Kshs.430,281,392 in 2015/2016. This resulted to unexplained decrease of Kshs.116,608,949 and it is not clear whether businesses that would otherwise have paid this amount closed or defaulted on their payments. Analysis of the revenue systems revealed collections of Kshs.295,468,402 hence a variance of Kshs.18,204,041 from the reported figure. The reported single business permit revenue was realized from 34,280 businesses compared to 43,312 business that paid permits in 2015/2016, hence a drop by 9,032 businesses. Further,

in the year under review, 118 single business permit booklets with 59,000 permits of varying amounts were issued. However only 34,280 businesses were accounted in the automated systems leading to unexplained difference of 24,720 permits. No schedule to show outstanding booklets was provided.

Further, revenue from single business permit was budgeted at Kshs.497,224,748 hence an under collection by Kshs.183,552,305 from reported figure. In addition, as noted in previous audit reports, the single business permit register has not been updated hence it is not clear how the budget is prepared and whether all eligible traders pay permits.

In view of these issues, the County may be losing huge sums of money through undisclosed businesses.

1.3. Vehicle Parking Fees

Receipts from vehicle parking fees was reported at Kshs.275,060,445 compared to Kshs.292,414,437 in 2015/2016 a decrease by Kshs.17,353,992. Further, from the budget figure of Kshs.427,383,929, an under collection of Kshs.152,323,484 was noted from the reported figure. The schedule was, however, not supported by sub schedules or revenue ledgers detailing each transaction.

Analysis of revenue systems revealed variances with the ledger presented for audit. For example revenue systems for Nakuru East Sub County revealed collections of Kshs.196,151,755 while the ledger indicated Kshs.206,036,035 leading to unreconciled difference of Kshs.9,884,280.

The reserved parking fees figure of Kshs.4,269,010 in the schedules provided for audit was not supported by sub schedules. Although this schedule indicated collections of Kshs.2,607,500 from Nakuru East Sub-County, the revenue systems indicated Kshs.23,806,510 leading to unexplained variance of Kshs.21,199,010.

It was also noted that in 2016/2017, Nakuru East sub-county issued 174 caution books each with 50 sheets, implying 8,700 sheets to collect fines from clamped vehicles. Since the approved minimum clamping fine is Kshs.1,000, the sub county ought to have collected a minimum of Kshs.8,700,000 but reported only Kshs.58,700. Details of clamping fees from the other sub counties were not provided.

2. Annual Reporting by Receivers of Revenue

The receivers of revenue did not prepare and submit to the Auditor-General a statement of receipts and disbursements as well as a statement of arrears of revenue. Additionally, there was no evidence that the receivers of revenue submitted to the County Assembly a report with respect to all waivers and variations of taxes, fees or charges granted during that year. This contravenes Section 165 (1) and (2) of the Public Finance Management Act, 2012.

Further, an incomplete outstanding revenue schedule indicating arrears of Kshs.5,992,282,904.69 from different revenue sources in the eleven (11) sub counties was presented for audit. This huge balance implies that the County Government is not strictly enforcing revenue collection measures.

3. Irregular Transfer of Funds

During the year under review, the County Executive transferred development account funds of Kshs.116,000,000 and Kshs.25,000,000 to the recurrent accounts of the Ministry of Finance and the Governor's Office respectively contrary to Section 154(1) (b) of the Public Finance Management Act, 2012. This defeats the purpose and intents of the budget making process through the public participation process since earmarked projects are not undertaken hence no delivery of services to residents. This is also contrary to fiscal responsibility principles, which prohibit funds to be moved from development to recurrent votes. Further, the usage of these funds was not fully accounted for.

4. Compensation of Employees

- i. The statement of receipts and payments reflects employee cost of Kshs.5,110,659,087 compared to Kshs.4,917,531,516 in 2015/2016 hence an increase by Kshs.193,127,571. The reported balance was 44% of the total revenue of Kshs.11,709,038,198 implying that the County Government exceeded 35% set limit as per Regulation 25(1) (b) of the Public Finance Management (County Governments) Regulations, 2015.
- ii. Further, while the financial statements reflected a figure of Kshs.5,110,659,082, the payroll summaries revealed a figure of Kshs.4,794,514,277 leading to unexplained variance of Kshs.316,144,805. The unreconciled/unexplained variance has consistently been reported in previous years and stood at Kshs.337,569,375 in 2015/2016. This may indicate irregular payments outside the payroll.
- iii. In addition, compensation of employees was over spent by Kshs.83,903,748 from the budgeted amount of Kshs.5,026,755,339 without the necessary approvals and denied other budgeted items funds.
- iv. Also, payments totaling Kshs.133,750,595 for casual wages for the financial year under review were reported under different votes in the ministries and not as employee costs. Had these amounts been included in compensation for employee expenditure line, the reported compensation of employees figure would have increased from Kshs.5,110,659,087 to Kshs.5,244,409,682.
- v. Despite the County having a work force of approximately 5000 employees, it's not clear why they continue to hire casual labourers thereby increasing the wage bill. This indicates a mismatch between job rationalization, placement and a likelihood of redundancies and overlaps of various jobs.

5. Irregular Promotions

During the year under review, the County Public Service Board promoted a considerable number of staff in various departments but the following issues were noted;

- i. The criteria used to effect these promotions was not stated. Furthermore, no vacancies were identified and internally advertised by the County. In addition, eighteen (18) employees moved within three job groups within twelve months as shown in **Appendix I**. The management did not explain how and why the promotions were done.

6. Use of Goods and Services

The use of goods and services in the statement of receipts and payments stood at Kshs.2,362,232,924 compared to Ksh.2,265,880,928 reported in the previous year. This represents an increase of Kshs.96,351,995. In addition, the use of goods and services was budgeted at Kshs.3,358,925,909 resulting to an under expenditure by Kshs.996,692,985 or 30% underutilisation of funds. Analysis of the various ministries cashbooks and schedules revealed that the use of goods and services figure was misstated and should have been Kshs.2,273,470,722.03 not the reflected amount of Kshs.2,362,232,924 leading to an unexplained and unreconciled difference of Kshs. 88,762,202.

Under the circumstances, the accuracy and completeness of the reported use of goods and services figure could not be confirmed.

7. Acquisition of Assets

7.1. Unexplained and Unreconciled Variances

The statement of receipts and payments reflects acquisition of assets in figure of Kshs.3,311,123,606 compared to Kshs.3,105,475,236 reported in the previous year, an increase of Kshs.205,648,369. The budget for acquisition of assets was Kshs.5,619,563,039, implying an under expenditure of Kshs.2,308,439,433 or 41% underutilization of funds. While the financial statements reported Kshs.3,311,123,606, analysis of cashbooks and schedules (except for Ministry of Trade, Industrialization and Tourism) revealed a figure of Kshs.3,330,145,922, leading to an unexplained variance of Kshs.19,022,316.

7.2. Unexplained - Expenditure on Domestic Public Non-Financial Enterprises

Included under acquisition of assets figure of Kshs.3,311,123,606 is an amount of Kshs.1,356,390,962 described as domestic non-financial enterprises in note 17 to the financial statements. However, management did not explain the nature and the transactions that make-up this component. In addition, supporting documents including payment vouchers, procurement records and other expenditure records for this item were not provided for audit. In the absence of these records, the validity, accuracy and completeness of this expenditure could not be confirmed.

8. Other Grants and Transfers

8.1. Unexplained Variances

The statement of receipts and payments reflects other grants and transfers (scholarships and other educational benefits) figure of Kshs.5,700,000 compared to Kshs.147,869,379 in the previous year, a decrease by Kshs.142,169,379. Analysis of the Ministry of Education records revealed bursary payments of Kshs.61,930,422 and other capital grants and transfers (sports items) of Kshs.13,750,000 all totaling Kshs.75,680,422. Therefore, the reported figure in the financial statements is understated by Kshs.69,980,422. Further, out of Kshs.61,930,422 bursary payments only amounts totaling Kshs.9,232,900 were acknowledged/receipted. In addition, payment vouchers amounting to Kshs.1,720,000 in respect to administration costs were not provided for audit.

Despite establishing a bursary fund, the County Government does not have a bursary policy, which would guide on the criteria for identifying eligible cases, awarding and distributing bursaries among other procedures. Therefore, bursaries are issued in a haphazard manner. The County did not prepare and submit to the Auditor-General or to the County Assembly the bursary fund financial statements contrary to Section 116 (7(b) and (c)) of the Public Finance Management Act, 2012.

8.2. Irregular Purchase of Sports Items

Included under other capital grants and transfers is an amount of Kshs.13,750,000 relating to purchase of sports items. However, the items were not procured through the national open tender contrary to the procurement plan and laid down procurement regulations. The minutes of the tender evaluation committee meeting of 2nd June 2016 were not appropriately signed. Further, it is not clear why Local Purchase Orders were raised on 20 June 2016 after deliveries of the sports equipment, which were delivered on 15 June 2016 and 13 June 2016 by M/S Copy Cate Enterprises and M/S Patmat Bookshop respectively. The attached certificates of inspection/acceptance of goods were not dated and the supplies were not taken on charge in the stores records. In addition, issue notes were not provided to show how the sports equipment were distributed and who benefitted from them.

9. Cash and Cash Equivalent

The statement of assets reflects cash and cash equivalent balance of Kshs.2,590,774,859 as at 30 June 2017 compared to Kshs.2,359,015,042 as at 30 June 2016. Further, the cash and cash equivalent balances as at 30 June 2017 were reported using the bank certificate figures instead of the cashbook balances. The County Executive failed to carry out proper bank reconciliations. Instances of using the wrong bank balances, failure to provide schedules to support un-presented cheques and lack of reconciling items details were noted. Arising from the foregoing, the accuracy of the cash and cash equivalent balance of Kshs. 2,590,774,859 as at 30 June 2017 could not be confirmed.

10. Deposits and Retentions

The statement of assets also reflects accounts payables-deposits and retentions balance of Kshs.3,887,570 as at 30 June 2017 compared to Kshs.23,782,749 as at 30 June 2016, a decrease by Kshs.19,895,179. However, bank statements, main cashbook and bank confirmation certificates showing how various contractors were paid their retention dues amounting to Kshs.19,895,179 were not provided for audit verification. Similarly, a schedule of

retentions made from different suppliers during the year under review was not presented for audit.

Consequently, It has not been possible to confirm the accuracy of retention balance of Kshs.3,887,570 as at 30 June 2017.

11. Pending Bills

Note 27 and Annex 1 to the financial statements reflect pending bills totaling Kshs.2,182,503,386 as at 30 June 2017 compared to Kshs.3,021,217,393 in the previous year representing a decrease of Kshs.838,714,007. However, the following issues were noted from audit of various ministries pending bills.

11.1. Presentation of Pending Bills in the Financial Statements

The pending bills were presented in block figures per ministry instead of the form and content recommended by the Public Sector Accounting Standards Board of Kenya.

11.2. Unexplained variance

Further, while the reported figure was Kshs.2,182,503,386, analysis from the individual ministries revealed Kshs.3,807,794,404 resulting to an unexplained variance of Kshs.1,625,291,018.

11.3 Ministry of Roads

As reflected in Annex 1 to the financial statements, the Ministry of Roads pending bills as at 30 June 2017 were Kshs.31,316,595 presented as Ministry of Public Works Kshs.7,820,997 and Ministry of Roads Kshs.23,495,598. However, schedules presented to support pending bills revealed a total amount of Kshs.1,034,512,950 made up of Kshs.1,002,079,819 and Kshs.32,433,131 in respect to development and recurrent expenditures respectively resulting to an un-explained variance of Kshs.1,003,196,355. Further, analysis of the development pending bills of Kshs.1,002,079,819 was as follows:-

Financial Year	Amount (Kshs)
2013/2014	3,983,350.00
2014/2015	43,865,584.00
2015/2016	167,061,305.00
Total as at 30 June 2016	214,910,239
2016/2017	787,169,580.00
Total as at 30 June 2017	1,002,079,819.00

From this analysis, as at 30 June 2016, the ministry had only Kshs.214,910,239 as pending bills yet in the financial year 2016/2017 the bill was Kshs.787,169,580. It is not clear why pending bills increased by 73% within 2016/2017 financial year. It was noted that pending bills dating back to 2013/2014 and 2014/2015 were still outstanding despite some pending bills for 2015/2016 have been fully paid putting in doubt the criteria and the policy used in paying outstanding bills. Further, outstanding payments to Kenya Roads Board totaling Kshs.153,128,142.20 were not included as part of the ministry's pending bills schedule.

Some projects listed as pending bills had not yet been executed. For instance, M/S Jesa Construction was awarded a contract for periodic and routine maintenance of Menengai Drive to Capital Hill Road (1km) in Menengai ward at a contract sum of Kshs.10,620,032. The contract was cancelled and was to be re-awarded, yet it was listed as a pending bill, therefore it is not clear to whom the bill is due.

11.4 Ministry of Environment, Water and Natural Resources

- i. The financial statements disclosed Kshs.336,805,180 as pending bills but supporting schedules had Kshs.319,183,812 leading to an unexplained difference of Kshs.17,621,367.
- ii. M/S Finton Logistic was contracted on 13th February 2016 to supply and deliver garbage compactor worth Kshs.12,000,000-Tender No. RFQ 195470-2015-2016 and refuse collection truck at Kshs.8,000,000-Tender No. 193832 -2015-2016. These items were not supplied but the suppliers was listed in the pending bills register with an amount of Kshs.20,000,000 for the supply.
- iii. M/s CMC Motors Group Ltd was contracted to supply a water bowser valued at Kshs.12,232,200. As per delivery /acceptance certificate No.6004 dated 31 October 2016 from CMC, a water bowser: MAN; CLA 26.280 Prime Mover and Water Bowser 15,000 litres Reg. NO. 32CG057A was delivered. However, the bowser was repossessed by M/s CMC Motors Group Ltd without any official documentation. Notwithstanding this repossession, M/s CMC Motors Group Ltd was listed in the pending bills register with an amount of Kshs.12,232,200.
- iv. M/S Crater Enterprises was contracted vide Tender NO.NCG/ENREW/W/070/2016-2017 to install a pump, tank repair, piping and electricity installation of Nyamamithi water project at a cost of Kshs.6,999,000. Audit verification revealed that the project which is at Hellsgate Ward Naivasha Sub-County had not commenced and yet the supplier was listed among the creditors in the pending bills register.

11.5 Ministry of ICT - (Information, Communication and E- Government)

Included in the pending bills for the ministry is unsupported expenditure amounting to Kshs.6,604,245.32. No delivery notes, invoices, certificates of inspection and acceptance, stores records-S13 and S12 were attached to support these expenditures. There was no evidence that the Ministry received the goods/services.

11.6 Ministry of Health

During the financial year 2016/2017, the ministry's pending bills increased by Kshs.72,857,716 from Kshs.785,867,566 in 2015/2016 to Kshs.858,725,282 in 2016/2017. However, a figure of Kshs.326,880,175 in respect to third parties was not supported showing the breakdown of the third parties.

11.7 Credit Facility

Included in the pending staff payables of Kshs.222,502,029 shown under Annex 2 to the financial statements, is a credit loan facility of Kshs.90,000,000 whose details were not presented for audit. No loan agreement and the bank statements relating to this facility were provided hence it was not possible to ascertain the validity, accuracy and completeness of the stated balance.

In view of the observations made from the above paragraphs, the accuracy, completeness, ownership and disclosure of Kshs.2,182,503,386 pending bills could not be confirmed.

12. Summary of Fixed Assets Register

The summary of the fixed asset register as shown in Annex 4 to the financial statements reflects a balance Kshs.785,694,985 as at 30 June 2017 compared to Kshs.774,044,024 as at 30 June 2016. However, the format of the fixed asset summary presented in the annexure is not correct and did not have historical opening balances, additions made during the year, depreciation during the year and historical closing balances. The fixed asset register has not been updated to capture the additions/purchases made during the year. Further, the County Executive does not have an asset management policy.

13. Irregular Issues on Use of Goods and Services

13.1. Information Communication and Technology

Expenditure on Car Track Management System

M/S Track and Trace Limited was contracted to execute a car track management system at a contract sum of Kshs.2,107,000. The contract agreement signed on 9 June 2016 did not specify the unit price, contract period and the number of motor vehicles that were to be fitted with tracking devices. However, invoice number 45397 dated 2 November 2011 presented for payment indicated that 98 motor vehicles were tracked at a unit price Kshs.21,500. Further, the ownership of these motor vehicles was, however, not confirmed since their respective logbooks were not produced for audit. In addition, there was no inspection and acceptance committee report indicating whether all the 98 vehicles were properly fitted with the specified car tracking system.

13.2. Ministry of Health

a) Over Expenditure

The Ministry of Health did not adhere to the approved budget and as result incurred Kshs.28,616,563 expenditure over and above budgetary allocation on six (6) budget items under use of goods and services as shown below.

Item	Over Expenditure amount (Kshs)
communication, supplies and services	2,552,159.00
Domestic travel and subsistence	10,715,810.00
Training expenses	1,805,700.00
Hospitality supplies and services	5,200,933.00
Insurance costs	921,512.00
and Routine maintenance – other assets	7,420,449.00
Total	28,616,563.00

b) Omission of Expenditure

Further, expenditure schedules provided indicated that Kshs.921,512 was incurred in the year in respect of insurance cost. This was paid to M/s AMACO Insurance Company Ltd vide payment vouchers No.30551 and 30535 for Kshs.730,660.00 and Kshs.228,644.50 respectively. However, this amount was not included/disclosed in the analysis of use of goods and services for the ministry. In addition, no provision was made in the ministry's approved budget for the insurance cost.

13.3. Public Service Management

a) Payment of Legal Services

The County Executive paid Kshs.119,584,869.35 in respect to legal fees. However, details showing initial fee notes amounts, amounts paid to date, outstanding balances (if any), the case(s) being handled and status of these cases were not provided. Further, the County Attorney Mr. Hari Gakinya wrote on 06 June 2017 requesting the chief officer Public Service Management to process payment of advocates fees of Konosi & Co Advocates, Ikua Mwangi & Co Advocates and Hari Gakinya & Co Advocates of Kshs.3,000,000, Kshs.4,000,000 and Kshs.10,000,000 respectively. In this request, details of the cases handled, charge out rate and status of the cases being handled were not stated. Subsequently in response to the 06 June 2017 request, payment voucher referenced 35042 of 08 June 2017 paid M/s Hari Gakinya & Co Advocates Kshs.10,000,000. The audit could not draw the line between the County Attorney and the payee. It is not clear why a County employee was awarded a contract to provide legal services, a clear case of conflict of interest.

b) Outstanding Legal Fees

A schedule presented for audit revealed that the County Executive had outstanding legal fees balance of Kshs.845,897,091.54 as at 30 June 2017. Except for this incomplete schedule, a detailed breakdown showing the cases handled by the respective law firms was not provided. Further, the County provided a list of 914 court cases that were at various stages. It is not clear why the county is bogged into very many cases and whose accuracy was not confirmed. The genuineness of these cases could not be confirmed since the respective legal cases files were either missing or had scanty information.

14. Irregular Issues on Acquisition of Assets

14.1. Ministry of Information Communication and Technology

Payment Made for Incomplete Works

The department of ICT contracted M/S Dualtwist Solutions Ltd on April 2016 to develop an asset management system at a contract sum of Kshs.3,800,000. The major scope of work involved tagging all assets located in all county offices, departments, sub-counties and supply anodized aluminum serialized black barcode readable with scanner. However, office furniture and laptops bought during the year were not tagged and were not updated in the asset register. Further, physical verification at Ministry Trade, Industrialization and Tourism, Information Communication and Technology and payment office revealed that office furniture were not tagged. The attached inspection and acceptance committee report was not signed, implying that the committee did not physically inspect the tagged assets. It is therefore not clear why payment was made before the committee satisfactorily ensured all assets were tagged. In addition, no comprehensive signed report on work carried out by the vendor was presented as required in specification 12 of the agreement.

14.2. Lands, Physical Planning and Housing

a) Preparation of Nakuru County Valuation Roll

In the financial year 2014/2015, the County Executive awarded M/s Sec & M. Co. Ltd tender ref: No.001/2014/2015 for preparation of valuation roll at contract price of Kshs.50,591,400. A budget provision of Kshs.79,814,522 spread in financial years 2014/2015, 2015/2016 and 2016/2017 to execute this contract was made. It is not clear why a provision of Kshs.79,814,522 was made and yet the contract sum was only Kshs.50,591,400. Further, Kshs.43,413,980 has been paid over the years up to 30 June 2017 leaving a balance of Kshs.7,177,420 from the contract sum. At the time of this audit, the contract had lagged by over two (2) years and yet the draft valuation report had not been tabled for adoption. This breaches clause 2.3 of special conditions of contract that provided a contract duration of five (5) months ending November 2015.

b) Preparation of Nakuru Spatial Development Plan

On 22 June 2015, the County Executive signed a contract with M/s Geomaps Africa Ltd, contract NO: CGN/N.C.S.D.P/04/2014-2015, for consultancy services for digital topographical mapping and preparation of 2014-2024 Nakuru County ten (10) year spatial development plan. The contract sum was Kshs.365,000,000 with a duration of eighteen (18) months ending December 2016 but only Kshs.166,505,878 was set aside for this contract. The County Executive has therefore failed to provide for Kshs.198,494,122 for this contract and it is not clear how they intend to finance the entire exercise and successfully complete it. The cumulative payments to the contractor up to financial year 2016/2017 stood at Kshs.114,975,996 with a balance of Kshs.250,024,004 from the contract sum. Despite this contract lagging behind by over two (2) years, and payments of Kshs.114,975,996 being made, no substantial work has been carried out and the submitted draft report has not been tabled, discussed and adopted. Since the plan was to run for ten years starting 2014 to 2024, it is not clear what benefits will be derived from this spatial development plan upon completion.

c) Preparation of a Land Information Management System (LIMS) for Nakuru and Naivasha Municipality Areas

In 2015/2016, the County awarded the contract for Land Information Management System (LIMS) for Nakuru and Naivasha Municipality to M/s Geo-Envi Solutions International vide contract NO: NCG/LHPP/RFP/010/2014-2015 for Kshs.33,995,950. The budget allocation in 2014/2015, 2015/2016 and 2016/2017 for this contract was only Kshs.32,684,440 implying a budget deficit of Kshs.1,311,510. The County Executive therefore failed to provide adequate budget allocation for execution of this project. Examination of payments records revealed cumulative payments up to financial year 2016/2017 of Kshs.16,977,974, hence a balance of Kshs.16,977,976 from the contract sum. This contract had a duration of six (6) months with completion and hand over date scheduled for 14 January 2016. Despite the lapse of timelines set in the contract agreement, no deliverables have been realised. The management indicated that the system is presently hosted on the cloud by the consultant and is active on internet at <http://104.131.103.125>, but the link directs to “beta flash solutions” website. Although the management stated that the final version of the system was submitted on 02 January 2018, there is no evidence that it was tested and officially launched.

14.3. Ministry of Environment

a) Incomplete Borehole Projects

Examination of cashbook, payment vouchers and project files revealed payments of Kshs.13,416,482 to contractors for drilling of boreholes. Physical verification revealed boreholes had been drilled and capped but not equipped and therefore were not available for use by the community. The intended beneficiaries have since remained without water. Further, in April 2016, the County spent Kshs.2,537,012 on drilling Losbil borehole which was discovered not to yield any water. The drilling was being undertaken fourteen (14) meters from another borehole drilled by the National Government and which did not yield water. It is therefore not clear why the County Executive proceeded to drill this borehole despite prior information that the location would not yield water. Not only did the management ignore prior information but also incurred extra cost through unnecessary hydrological survey and subsequent drilling of the borehole at Kshs.2,537,012.

b) Incomplete Kirobon Community Water Project

During the year under review, Kshs.15,000,000 was allocated for the rehabilitation of Naruwasco water works. The Ministry of Environment and Natural resources spent Kshs.3,926,536 which was paid to M/s Albywoods Agencies Limited for laying of 5.7km water pipes at Kirobon pipeline water project in Njoro Sub County as per summary of the bill of quantity. Physical verification of the project revealed that pipe works had been completed but a section of the pipeline was broken and needed repairs. It was also noted that locals have not been supplied with water ever since the project was completed; therefore, there was no value for money from the project. In addition, official handover report between the Ministry and Nakuru Rural Water and Sanitation Company Ltd was not presented for audit.

c) Desilting of Storm Water Retention Pond-Nakuru Old Town

The Ministry of Environment budgeted to spend Kshs.8,000,000 on desilting of storm water retention pond at Nakuru Old Town treatment plant. M/s Karima Engineering Company Limited was awarded this contract vide tender no CGT/ENREW/W/043/2015-2016 at contract sum of Kshs.6,020,000 which was paid vide payment voucher no 604. Physical verification revealed that works had been completed but the pond is likely not to function since polluted storm water bypass the desilted pond eventually draining into Lake Nakuru. It was further noted that the treatment chambers were silted up and needed rehabilitation.

14.4. Education, Sports, Youth and Social Services.

a) Construction of Buildings

The ministry spent Kshs.171,718,592.05 for construction of various buildings. However, the procurement method used to identify the various contractors was not stated and the ministry did not provide procurement documents from IFMIS. Inconsistencies of dates in the supporting documents for instance raising of LPOs before tender award notification and acceptance of award letters, and the contract agreement were noted. There were instances where the payments were approved before the respective LPOs were raised and also invoices were raised before the LPOs. In most cases, photocopies of LPOs were used to support payments without being certified as true copies of original and also contract agreements had no defined time frame. Further, segregation of duties was lacking since the accountant was signing certificates of acceptance as well as authorizing expenditure.

b) Acquisition of Land

In the year under review, the Ministry of Education, Culture, Youth Sports budgeted Kshs.2,000,000 for acquisition of land but spent Kshs.29,510,013.80 leading to unexplained over expenditure of Kshs.27,510,013.80 as detailed below.

Voucher	Payee	Payment Date	Amount Kshs
10006877	Ikua Mwangi and Company Advocates	28-Aug-16	1,000,000.00
10008071	Kinyanjui and Njau Advocates	09-Feb-17	1,660,013.80
	Payments to lawyers		2,660,013.8
10008499	Apple Cross Surveyors	23-Feb-17	100,000.00
10008500	Apple Cross Surveyors	23-Feb-17	250,000.00
10008501	Apple Cross Surveyors	23-Feb-17	100,000.00
10007080	James Njenga Mbugua	13-Jan-17	9,000,000.00
10006291	Jackson Kemboi	18-OCT-16	3,500,000.00
10006292	Jackson Kemboi	18-OCT-16	3,500,000.00
10006293	Simba Paul Erick	18-OCT-16	3,400,000.00
10006595	Saddabri Auctioneers	05-Dec-16	7,000,000.00
Sub Total			26,850,000
Total			29,510,013.80

- i. It is not clear why two private lawyers were paid Kshs.2,660,013.80 as conveyance fees for drawing and execution of the sale agreements. This is despite the County having their own team of lawyers/legal advisors.
- ii. A perusal of M/s Applecross Surveyors report Ref: AC/CGN/1/49 for L.R. Number: Nakuru Municipality Block 27/910 revealed that the valuation was done on 1st August 2016, two (2) months after the approval of the payment of Kshs.9,000,000 for the parcel of land done on 03 June 2016. It appears therefore that the value had been predetermined and the valuation process was just a formality. Despite the payment, the previous owner still uses this parcel of land and it is not clear when the usage will transfer to the County. This may indicate a conflict in the ownership of this parcel of land.
- iii. The sale agreements for all the five (5) parcels of land were undated and they were all signed on the last page despite them having several pages.
- iv. After incurring the expenditure, one and half years down the line, the County Executive is not in possession of the respective title deeds or any ownership documents.

14.5. Roads, Public Works and Transport

a) Budget and Budgetary Control

The Ministry of Roads budgeted to spend Kshs.1,809,594,836 on various development projects. This budget amount was explained to be Kshs.795,373,090 allocation for 2016/2017 and Kshs.1,014,221,746 being allocation for prior years rolled over pending bills. It was however noted that the earmarked 2016/2017 projects were not implemented but rolled over. This trend of consistently rolling over budgeted projects, implies that the wishes of the residents which are gathered annually through public participation are ignored..

b) Remedial Improvement Works to Main Afraha Stadium

The County Executive undertook remedial improvement of the Afraha stadium which was funded by various ministries at a cost of Kshs.155,796,089.98. It was, however, noted that different departments/ ministries carried own procurement of the works at the stadium which appeared uncoordinated and duplicated with similar works having varying specifications. Further, the County Executive did not have a budget for these remedial improvement works and therefore they were undertaken without necessary approvals especially from the County Assembly. In addition, these works were not included in the procurement plan. Under the circumstances, the County Executive was in breach of Article 227 of the Constitution of Kenya 2010 and Section 45 (3) of the Public Procurement and Asset Disposal Act 2015.

c) Supply, Installation and Maintenance of Solar Street Lights

In 2016/2017, M/S Solare Energy Kenya Ltd was awarded and paid contracts worth Kshs.25,203,663.25 to supply, install and maintain solar street lights in various wards within Nakuru County. Physical verification of sampled solar street lights revealed that they were

indeed supplied and installed. However, none of them was functional since valuable equipment like the solar panels had been vandalized. Furthermore, it is not clear whether the County had carried out proper feasibility studies on preferring solar street lights rather than flood lights (which were verified to be functioning). In addition, there was no evidence that the supplier was maintaining the already installed solar street lights.

d) Expenditure on Street lights (Flood Lights)

During financial year under review, several contractors were awarded contracts to supply and install street lights in various wards in Nakuru County and were paid Kshs.140,506,078.10. However, we were unable to physically verify the actual number of street lights installed in 2016/2017 since they were not labeled. Further, it was difficult to differentiate street lights installed in 2015/2016 and prior years and those installed in 2016/2017.

e) Road Maintenance Levy Fund

The Ministry of roads budgeted to spend Kshs.134,560,844 through the road maintenance levy fund. Despite the Ministry of Roads receiving Kshs.135,768,574 for Kenya Roads Board (KRB) projects, only projects worth Kshs.126,542,905 were awarded leading to unexplained difference of Kshs.9,225,669. In addition, of the Kshs.126,542,905 projects awarded, only projects worth Kshs.2,753,854 had been paid as at 30 June 2017, implying projects worthy Kshs.123,789,051 already awarded had not been paid for. Furthermore, analysis of the KRB cashbook and bank statements revealed that cash and cash equivalent balance stood at Kshs.24,319,351 as at 30 June 2017. It is therefore not clear how KRB funds were utilised and may have been diverted and utilised in other unrelated expenditures.

f) Spot Improvement and Routine Maintenance of Print House Road

On 13 May 2016 the County Executive of Nakuru entered into a contract with M/s Vescom Enterprises Limited contract number CGN/RTPW/015/KRB/2015-2016 for spot improvement and routine maintenance of Print House Road (1KM) in London ward Nakuru West Sub County at tender sum of Kshs.13,418,000. The contractor was paid Kshs.9,382,170 and Kshs.4,032,630 vide payment voucher no. 0033 and 5694 respectively. Despite the contract specifying coverage length of 1KM, works undertaken covered only 900m length and 9m width. Of the 900m undertaken only 600meters of the road was re-carpeted, the remaining 300meters stretch was explained to have been spot patched. This section was however observed to be dilapidated and one of the culverts had broken creating a big pothole at the middle of the road. The drainage was observed to have been blocked and garbage had piled on it.

g) Repair and Spot Improvement of Kivumbini Drain

During the financial year under review, M/s Benra Construction was awarded contract for routine maintenance, spot improvement and repair of Kivumbini drain Mumias Road in Nakuru East Sub County, contract number CGN/RTPW/007/KRB/2016/2017 at a sum of Kshs.5,000,000. Physical verification revealed that only 250m of the drain was repaired accounting for only half of the repairs. Further, the drain was already clogged and was more of a garbage dumping site than drainage.

14.6. Ministry of Trade

a) Projects not Implemented

The design and construction of auction mobile market for hawkers in Nakuru County was budgeted at Kshs.17,783,279 and AIE no. CN 01584 for the project was issued on 22nd May 2017. However, the project was not implemented thereby derailing possible benefits that were to be derived from the project. Similarly, the purchase of five (5) milk coolers for Bahati, Rongai, Waseges, Kiptagich and Molo sub counties were budgeted at Kshs.13,630,266 and AIE CN 01257 issued on 9th September 2016. However, the five (5) coolers were not purchased, delivered and installed hence derailing the intended benefits to the residents.

b) Markets Completed but not in Use

In the year under review, the Department of Trade and Industrialization spent Kshs.13,762,196 on construction of three (3) markets as follows:-

Market	Amount (Kshs)	Dates of Certificates of Practical work Completion
Market sheds in Free Area	4,999,999.00	23/01/2017
Fresh food market in Free Area	4,789,350.00	17/02/2017
Open market shed in Menengai	3,972,847.20	04/05/2017
Total	13,762,196.20	

Physical verification revealed that the projects were completed but they are not in use. This may imply that proper public participation on identification and location of these markets was not carried out.

15. Internal and IT Control Issues

The County Executive of Nakuru has installed and implemented various Information systems that are not integrated with Integrated Financial Management System (IFMIS). The County has not established an IT strategy committee, and does not have IT strategic plan, IT security policy, risk management policy, disaster recovery plan / business continuity plan and various outsourced services do not have service level agreements.

The County may be at risk of fraudulent activities since risks have not been properly identified and therefore adequate controls may not have been put in place.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the County Executive's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the County Executive's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Executive internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Executive's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report.

However, future events or conditions may cause the County Executive's to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County Executive to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 July 2018

Appendix I

Irregular Promotions

	Payroll Number	Names	Job Groups Promoted	Total Gross Pay (Kshs)
1.	1992028395	Ngatia Catherine Wamuyu	J	282,926.00
			K	146,340.00
			L	156,604.00
2.	2010055879	Mwangi Dorcas Nduta	K	290,970.00
			L	346,640.00
			N	157,716.00
3.	2010056435	Wanga Asinah Ashiku	K	290,970.00
			L	346,640.00
			N	157,716.00
4.	19890002294	Otenyo Catherine Gathoni	K	582,438.00
			L	392,670.00
			P	235,360.00
5.	19920000657	Kakai Everlyne Bunusu	K	430,900.00
			L	502,908.00
			N	217,960.00
6.	19920003461	Ngigi Lydia Wanjiku	J	388,500.00
			K	444,070.00
			L	169,260.00
7.	19920006506	Nderitu Jacqueline Wanjiru	J	352,975.00
			K	399,207.00
			P	261,100.00
8.	19920013654	Ndiho Beatrice Wairimu	L	562,688.00
			M	520,650.00
			N	273,893.00
9.	19920013887	Gichaga Mary Wangari	K	452,650.00
			L	527,268.00
			N	226,660.00
10.	19930000874	Rono Jonah	K	413,150.00
			L	486,028.00
			N	210,860.00
11.	19930007284	Luyai Margaret Iminza	J	441,840.00
			K	345,664.00
			L	159,400.00

12.	19950002196	Omondi Fredrick Edwin	J	383,425.00
			K	645,886.00
			M	176,360.00
13.	19960006893	Chemoiywo Jane	L	651,494.00
			M	577,188.00
			P	244,060.00
14.	19970000492	Mburu Charles Gathiongo	J	347,900.00
			K	398,598.00
			M	157,370.00
15.	19980013401	Omambia Elijah Mogoi	J	352,975.00
			K	404,282.00
			N	196,360.00
16.	19990009946	Njoroge Kevin Gitau	K	373,275.00
			L	437,018.00
			Q	230,860.00
17.	20070000289	Mbalwa Philip	K	459,900.00
			L	535,388.00
			P	229,560.00
18.	20100002604	Kariuki Symon Kinyanjui	G	376,200.00
			J	351,452.00
			L	123,404.00
Total				18,827,576.00